

E-002/M-92-788 ORDER APPROVING PROPOSAL IN PART AND REJECTING
PROPOSAL IN PART

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm	Chair
Tom Burton	Commissioner
Cynthia A. Kitlinski	Commissioner
Dee Knaak	Commissioner
Norma McKanna	Commissioner

In the Matter of Northern States
Power Company's Proposal of Two
Additions to the Saver's Switch
Tariff Sheet

ISSUE DATE: December 29, 1992

DOCKET NO. E-002/M-92-788

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PROCEDURAL HISTORY

In 1989, Northern States Power Company (NSP or the Company) proposed a two-year air conditioning and water heating pilot project as part of its Conservation Improvement Program (CIP). The project, known as the Experimental Controlled Air Conditioning and Water Heating Rider (Saver's Switch) was approved on April 24, 1990. Under this program, the Company uses one-way VHF radio communication technology to control air conditioning and water heater energy use during system peak periods. From June through September, participants receive a discount on their energy charges for allowing their central air conditioning units to be cycled on and off periodically during peak hours. Participants receive a discount throughout the year for bringing their electric water heater use into the program.

In January, 1991, NSP proposed expanding the Saver's Switch program in its Twin Cities service area. NSP indicated that it should target its program to residential customers only. The Company proposed dropping the three Small General Service (SGS) customers who were currently availing themselves of the Saver's Switch option. The Company explained that an independent study would be needed to determine the best way to implement Saver's Switch for the SGS class of customer. NSP's proposals were approved on April 19, 1991, and the revised tariff was incorporated into the Company's 1991 CIP.

On July 20, 1992, NSP filed proposed changes to the Saver's Switch tariff. If these changes were approved, NSP would extend the Saver's Switch program to Energy-Controlled (Non-Demand Metered) residential customers with heat pumps. Extending the program to customers with heat pumps would allow customers who cool their houses in the summer with heat pumps to obtain the

same discount as customers who cool their houses with air conditioning units. The Company's other proposed change would extend the Saver's Switch to up to 40 SGS customers in the Edina area service territory.

The Department filed comments in support of NSP's proposed changes on October 10, 1992.

The matter came before the Commission for consideration on December 10, 1992.

FINDINGS AND CONCLUSIONS

I. Non-Demand Metered Customers

Comments of the Department

The Department stated that load management programs such as the Saver's Switch increase the serving utility's load factor and efficiency and thus benefit all the utility's stakeholders.

While generally favoring load management programs, the Department was aware of possible flaws in such programs. Some load management programs may allow "free riders," individuals who benefit from the program discounts without changing their energy use habits. If Saver's Switch were extended to Non-Demand Metered customers with heat pumps, participants with heat pumps sized for winter heating requirements could pose a free rider issue. Heat pumps sized for winter heating typically have greater capacity than necessary for summer cooling. In the summer, large heat pumps used for air conditioning frequently cycle on and off rather than running continuously or semi-continuously. If a customer with a large heat pump entered the Saver's Switch program, the individual might receive the program discount without significantly changing the summer use of the heat pump. Such an individual would be a free rider.

Recognizing the possibility of a free rider situation, the Company proposed a restriction to its Saver's Switch eligibility requirements. The restriction would limit the program's application to "heat pumps sized for summer cooling requirements as determined by the Company." The Department felt that this language would remove the potential for free rides in the Saver's Switch program. The Department was generally satisfied with the Company's proposal and recommended extending the program to Non-Demand Metered customers with heat pumps.

Commission Analysis

The Commission agrees with the Department that expansion of the Saver's Switch program to Non-Demand Metered customers with correctly sized heat pumps is appropriate. It is reasonable to offer the same opportunity for discounts to customers who cool with heat pumps as has been offered to customers who cool with air conditioning units. Both types of customers offer a chance for load management and the control of energy consumption. The Commission will approve the extension of the Saver's Switch program to NSP Non-Demand Metered customers with heat pumps.

II. Small General Service Customers

Comments of the Department

The Department noted that the Company had not formally researched ways to market the Saver's Switch program to SGS customers, or supplied data to support the proposed expansion. The Department's belief that the program should be extended to SGS customers was based on the three following economic arguments:

1. Additional load management increases the utility's load factor and efficiency. The addition of another customer class increases the potential efficiency gains from a load management program;
2. NSP's proposal maximizes the use of existing resources and minimizes potential risks by restricting SGS eligibility to a known service area and a predetermined number of customers;
3. NSP's proposed use of existing resources minimizes the cost of extending the Saver's Switch program to SGS customers.

The Department concluded that the arguments favoring extension of the Saver's Switch program to SGS customers outweighed any concern about a lack of formal market research. The Department recommended that the Commission approve the extension of the program to SGS customers.

Commission Analysis

The Commission notes that in 1991 NSP asked to remove all SGS customers from the Saver's Switch program. At that time the Company stated that an independent study would be necessary to learn the best way to implement the Saver's Switch for SGS customers. To date, NSP has not supplied any studies or data to support the extension of Saver's Switch to SGS customers. Neither has the Company offered any reason that a study is no longer necessary.

The Commission is unpersuaded by the broad economic theories advanced by the Department to support this extension of Saver's Switch. In order to determine if the proposed extension will result in just and reasonable rates, the Commission must see the Company's detailed plan to conduct and evaluate the expanded program. Since no such plan is before the Commission at this time, the Commission will reject the proposed extension of the Saver's Switch to SGS customers. Until a plan is available which will allow informed decision making, the Commission cannot approve the proposed program extension.

ORDER

1. NSP's request to extend its Saver's Switch program to Non-Demand Metered residential customers with heat pumps is approved.
2. NSP's request to extend its Saver's Switch program to SGS customers is denied.
3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

(S E A L)